Power Construction JSC No.1 (HSX: PC1)

Take advantage from the wind power market

(VND bn)	Q1-FY21	Q4-FY20	+/- qoq	Q1-FY20	+/- yoy
Net revenue	1,548	2,472	-37%	1,370	13%
PAT	78	132	-41%	91	-14%
EBIT	128	203	-37%	153	-16%
EBIT margin	8.3%	8.2%	6bps	11.2%	-288bps

Source: PC1, Rong Viet Securities

1Q2021 – Low performance because of the dry season and low volume from construction

- Revenue in 1Q2021 grew by 13% YoY because of power construction growth, -37% QoQ due to (1) Peak season of power construction in 4Q2020; (2) Real estate omission.
- Gross profit was VND188 Bn (or USD 8 Mn), -6% YoY and -41% QoQ because of low margin from the power construction segment.
- NPAT was VND 78 Bn (or USD3.4 Mn), -41% QoQ and -14% YoY.

2021 outlook – Take advantage from the renewable energy market

- Electricity capacity has expanded gradually and will be a solid contributor for the company's earnings in the medium term. In 2021, we expect that (1) Hydropower volume is going to increase thanks to La Nina and full-year utilization and (2) Wind power plants will COD in 4Q2021 that will trigger PC1 earning money in the power generation segment. We forecast that the power generation segment will generate VND 1,074 Bn (or USD 47 Mn, +44% YoY) and VND 660 Bn (or USD 29 Mn, +46% YoY) in terms of revenue and gross profit, respectively.
- A charismatic contractor in power construction market brings EPC contracts from wind power projects for the company. High gross profit margin from wind power project boost PC1's power construction earnings. Particularly, we expect this segment to contribute VND 4,527 Bn (or USD 197 Mn, +48% YoY) and VND 450 Bn (or USD 20, +46% YoY) in terms of revenue and gross profit, respectively.
- Real estate omission shrinks PC1's overall profit margin in 2021. This segment is going to contribute in late 2022 and 2023 thru Vinh Hung and Bac Tu Liem projects.
- 2021 revenue and NPAT will be VND 7,581 Bn (or 330 Mn, +14% YoY) and VND 510 Bn (or USD 22, +1% YoY) respectively. 2021 EPS is VND 2,387.

Valuation and Recommendation:

The company is going to possess a potential renewable energy portfolio including hydropower and wind power plants. In the following months the company will COD the three wind power plants, constructing by itself with efficient CAPEX, expanding its capacity by 86% from 168 MW to 312 MW. Furthermore, as a prestigious contractor in renewable energy helps PC1 gain numerous wind power construction contracts in the years to come. 2021 is an off-peak season from real estate, thus it is hard for PC1 to maintain high growth in NPAT as in previous years. However, in the long-term, PC1 is forecasted to sustain growth. In 2022, full year utilization from wind power plants and real estate contribution shows clearly a growth story.

*Using P/E and sum of the parts methods, we determine the fair value of PC1 at **VND 34,100** per share, offering a 27% upside from the closing price on June 7th. This price is adjusted upward from the most recent update because we add the two wind power plants value in our forecast. We recommend to **BUY** this stock.*

BUY	+27%
CMP (VND)	26,800
Target Price (VND)	34,100
Cash dividend (VND)*	0

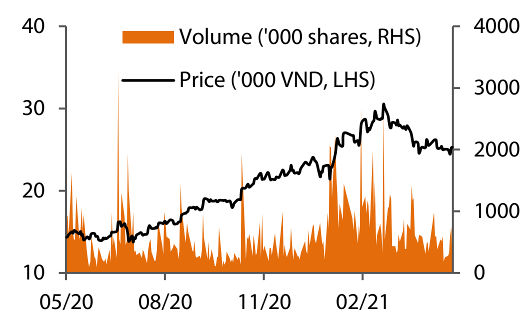
**Expected in the next 12 months*

Stock Info

Sector	Utilities
Market Cap (VND Bn)	4,846.6
Current Shares O/S	191.2
Avg. Daily Volume (in 20 sessions)	479.9
Free float (%)	100
52 weeks High	30,500
52 weeks Low	13,750
Beta	1.0

	FY2020	TTM
EPS	2,526	2,585
EPS Growth (%)	43	18
Diluted EPS	2,526	2,585
P/E	10.0	9.8
P/B	0.9	1.1
EV/EBITDA	7.9	6.1
Cash dividend yield (%)	0%	0%
ROE (%)	10.1	10.7

Price performance



Major Shareholders (%)	
Trinh Van Tuan	18.1
BEHS	17.8
Vietnam Holding	4.1
Nguyen Nhat Tan	3.2
Foreign ownership room (%)	37.9

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Exhibit 1: 1Q/2021 Results

(VND bn)	Q1-FY21	Q4-FY20	+/- (qoq)	Q1-FY20	+/- (yoy)	1Q-FY20	+/-(yoy)
Net revenue	1,548	2,472	-37.4%	1,370	13.0%	1,370	13.0%
Gross profit	188	319	-41.2%	199	-5.7%	199	9.0%
SG&A	59	116	-48.7%	46	29.1%	46	-11.3%
Operating income	128	203	-36.9%	153	-16.1%	153	10.1%
EBITDA	187	297	-37.0%	198	-5.3%	198	16.0%
EBIT	128	203	-36.9%	153	-16.1%	153	17.0%
Financial expenses	60	66	-9.6%	51	17.1%	51	55.6%
- Interest Expenses	*58*	*63*	*-6.8%*	*51*	*14.3%*	*51*	*55.5%*
Dep. and amortization	59	94	-37.2%	45	31.6%	45	12.7%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	97	175	-44.5%	112	-13.2%	112	4.1%
PAT	78	132	-40.8%	91	-14.1%	91	9.9%
(*) Adjusted PAT	78	132	-40.8%	91	-14.1%	91	9.9%

Source: PC1, Rong Viet Securities

Exhibit 2: 1Q/2021 Performance Analysis

Particulars	Q1-FY21	Q4-FY20	*+/- (qoq)*	Q1-FY20	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	12.1%	12.9%	-79bps	14.5%	-240bps
EBITDA Margin	12.1%	12.0%	7bps	14.4%	-235bps
EBIT Margin	8.3%	8.2%	6bps	11.2%	-288bps
Net Margin	5.1%	5.4%	-29bps	6.7%	-160bps
Adjusted Net Margin	5.1%	5.4%	-29bps	6.7%	-160bps
Turnover *(x)					
-Inventories	6	9	-3.2	4	2.6
-Receivables	1.9	3.0	-1.1	2.7	-0.8
-Payables	2	5	-2.3	3	-1.1
Leverage (%)					
Total Debt/ Equity	101.8%	78.6%	2322bps	74.0%	2779bps

Source: PC1, (*) Annualized turnover

Exhibit 3: 2Q/2021 Performance Forecast

(VND bn)	Q2-FY21	+/- qoq	+/- yoy
Revenue	2,043	32%	75%
Gross profit	304	62%	2%
EBIT	216	68%	-1%
NPAT	145	85%	18%

Source: PC1, Rong Viet Securities

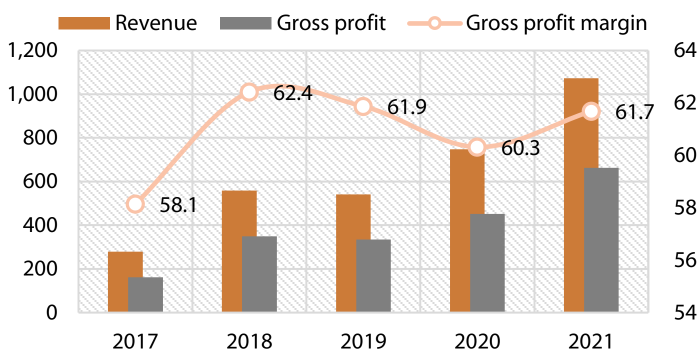
- Power construction revenue will be VND 1,283 Bn (USD 56 Mn, +185% YoY, +50% QoQ) and contribute 63% of total revenue, mostly coming from wind power projects backlog.
- Gross profit margin will be 15%, which is lower than that of Q2 2020 due to (1) lack of contribution from real estate and (2) large portion contribution from power construction, whose GPM is low. Power construction and generation are going to contribute 45% and 42% of gross profit, respectively.
- Growth in NPAT because of high volume from power construction and rainy season in the North.

Update:

Gradual capacity expansion from the electricity generation segment

Hydropower revenue in 1Q2021 was VND 115 Bn (or USD 5 Mn), +22% YoY because of full year utilization of the two hydropower plants (54 MW). Gross profit was VND 61 Bn (or USD 2.6 Mn), +18% YoY, leading to a gross profit margin of 53% - lowest quarter during the year because of the dry season. Other quarters have a higher gross profit margin than the 1st quarter. In 1Q2021, this segment contributed to the company's revenue and gross profit of 7% and 32%, respectively.

Figure 1: Hydropower performance (LHS, VND Bn) and gross profit margin (RHS, %)



Source: PC1, Rong Viet Securities

The hydropower segment has a high gross profit margin, ranging from 58% to 62%. Sustainable growth in revenue and gross profit since 2017, the segment has been the main pillar in the company's gross profit since then. All of PC1's hydropower plants are small scale (<30 MW), and do not participate in Competitive Generation Market (CGM) yet applies avoided cost tariff (*). This means that in La Nina year, when generated volume increases and selling price is fixed, PC1's hydropower plants will perform higher than large-scale hydropower plants.

(*) Applied avoided cost tariff: The amount of money that an electric utility would need to spend for the next increment of electric generation to produce or purchase elsewhere the power that it instead buys from a co-generator or small-power producer.

PC1 has planned to triple its power capacity to 468 MW from 168 MW (in 2020) in the next five years. We expect its generated capacity to increase to 312 MW (+86%) by three new wind power plants in 2021, and to 342 MW by Bao Lac A hydropower plant in 2023.

PC1 has boosted the construction of wind farms so that it can COD Lien Lap plant in August 2021 and COD the two remaining ones before the FiT 1 deadline (Oct 31st, 2021). In addition, the company will initiate Bao Lac A hydropower project (30 MW) by June 2021 in order to COD in 3Q2023.

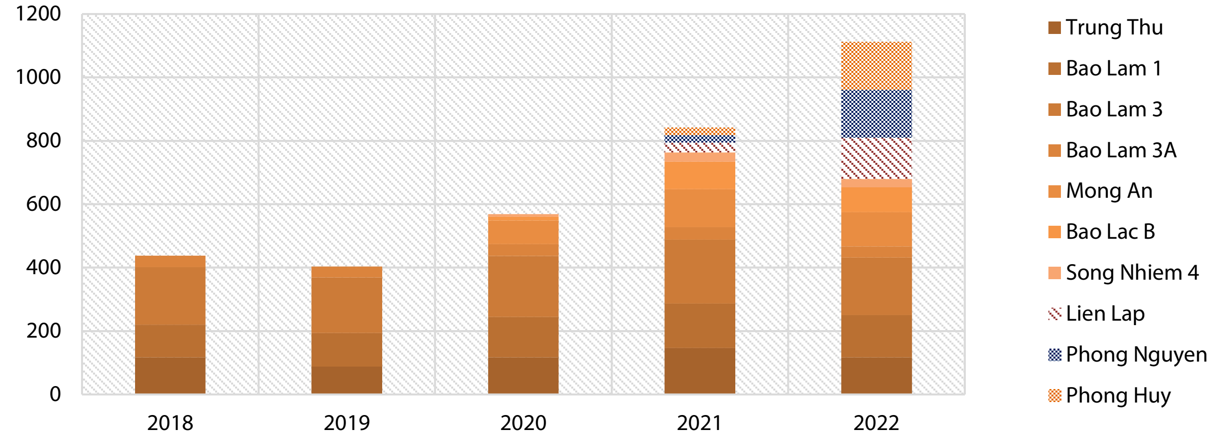
Table 1: Power generation plants

Plants	Capacity	COD	Ownership
Lien Lap	48	3Q2021	56%
Phong Huy	48	4Q2021	55%
Phong Nguyen	48	4Q2021	55%
Bao Lac A	30	3Q2023	100%

Source: PC1, Rong Viet Securities

In 2021, we estimate total generated volume to increase by 48% YoY to 842 million kWh given (1) Hydropower volume is going to grow by 34% YoY and (2) Three new wind power plants are going to COD from 3Q2021. It should be noted that renewable energy has boomed, resulting in the fact that supply growth surpassed demand growth. We forecast that renewable capacity will be cut around 15% and 10% in 2021 and 2022, respectively (Figure 2). Therefore, we estimate PC1's wind power plants will produce 78 million kWh in 2021 and 433 million kWh in 2022.

Figure 2: Electricty volume by plants (million kWh)



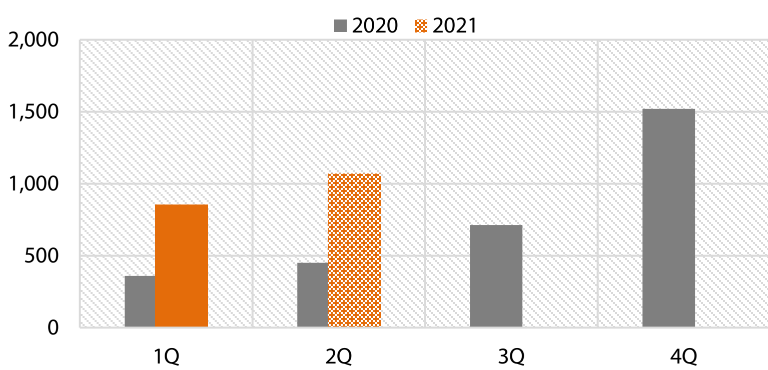
Source: PC1, Rong Viet Securities

Power construction continues to benefit from the wind power market

In 1Q2021, power construction recorded VND 856 Bn (or USD 37 Mn) in revenue, contributing 55% to PC1's total revenue (Figure 3). With gross profit margin at 10.7%, this segment contributed VND 91 Bn (or USD 4 Mn), accounting for 49% of the company's gross profit. In 1Q2021, the company signed a VND 2.584 Bn (or USD 112 Mn) new contract (in which Tan Phu Dong project accounts for 65%), fulfilling 52% of 2021 new signed contract value plan. It has planned to sign VND 5,000 Bn (or USD 217 Mn) in new contract during 2021, while backlog transferred from 2020 reached VND 3,231 Bn (or USD 140 Mn). Thus, we estimate that PC1 will record roughly VND 4,500 Bn (or USD 196 Mn) in 2021.

Given the fact that it is a prestigious renewable energy contractor, we expect that it will gain the most from this potential market, especially after MoiT finalizes a new price mechanism for renewable power. As the 8th Master plan shows that renewable energy will gradually expand in the following years, the more wind power plants addition, the more power construction volume for PC1. High gross profit margin from renewable energy construction will expand GPM of the power construction segment. Wind power plant's gross profit margin ranges from 11% to 15%. In 2021, however, this margin could be narrowed down due to higher material prices.

Figure 3: Estimated power construction revenue by quarter (VND Bn)

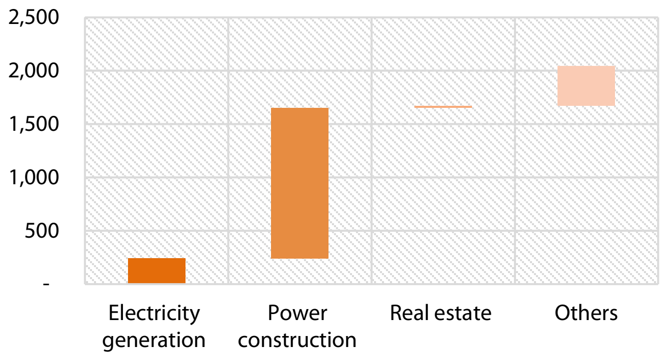


Source: PC1, Rong Viet Securities

The company is going to raise its production capacity in the manufacturing segment by 50% to 20,000 ton/pa. It also plans to transfer this plant to Dong Anh's subsidiary for convenient management. Therefore, in Q1 2021, revenue from manufacturing production was merely VND 25 Bn (or USD 1 Mn), -95% YoY. In Q2 2021, we estimate revenue of this segment around VND 129 Bn (or USD 5.6 Mn), fourfold QoQ.

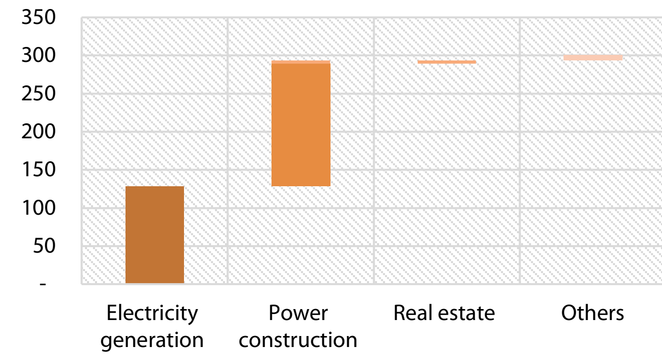
We estimate revenue from the manufacturing segment to be VND 527 Bn (or USD 23 Mn, -36% YoY based on backlog transferred to 2021 and estimated new signed contract at VND 236 Bn and VND 723 Bn, respectively. This segment has a minor contribution in total PC1's revenue (7%) and gross profit (3%). In the case of a surge in material prices, this segment barely contributes to gross profit.

Figure 4: 2Q2021 revenue by segments (VND billion)



Source: PC1, Rong Viet Securities

Figure 5: 2Q2021 gross profit by segment (VND billion)



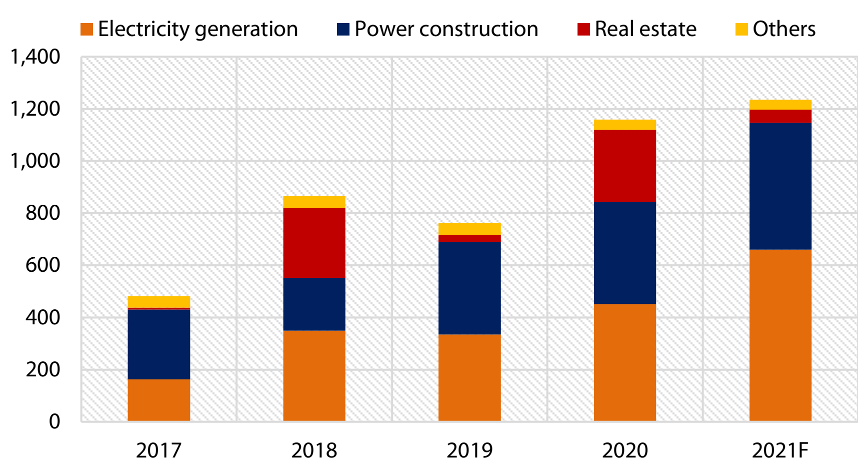
Source: PC1, Rong Viet Securities

Real estate begins contributing in 2022

Real estate omission in 2021 made it difficult for the company to maintain a high growth in NPAT as in 2020 (42% YoY). During 2021, PC1 is going to record around VND 117 Bn (or USD 5 Mn) in revenue from the real estate segment. This amount will come mostly from the remaining (5%) PCC1 Thanh Xuan project. In 1Q2021, PC1 recorded VND 60 Bn (or USD 2.6 Mn) in revenue.

PC1 currently has two real estate projects which are under development, namely Vinh Hung and Bac Tu Liem. It is expected that Vinh Hung will hand-over and report revenue from mid-2022 and that of Bac Tu Liem will come by 2023. In this updated report, we count Vinh Hung contribution in our forecast and valuation model given its clear progression (being at constructed massive pile drilling and diaphragm wall phase). Meanwhile, Bac Tu Liem project has just finished the compensation for site clearance phase. We will revalue the project when it meets sale conditions.

Figure 6: Gross profit contribution by segment (VND Bn)



Source: PC1, Rong Viet Securities

To sum up, we anticipate that PC1 will enjoy the renewable energy wave in 2021 both in power construction and generation. Therefore, we forecast PC1's revenue to grow by 14% YoY to VND 7,581 Bn (or USD 329.6 Mn) and NPAT to VND 509 Bn (or USD 22 Mn), driven by power construction. The 2021 EPS is VND 2,387.

Valuation

We use two methods including PE and SoP with a weight of 40% and 60%. We raise our target price for PC1 due to the two wind power plants addition in our valuation model, to VND34,100, offering a upside of 27% compared to the closing price at Jun 7th, 2021 Thus we recommend to **BUY** this stock.

Table 1: PC1's valuation (VND)

Method	Valuation	Weight	Weighted average
PE (10x)	23,865	30%	7,160
SoP	38,532	70%	26,972
Total		100%	**34,100**

Source: Rong Viet Securities

VND Bn

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	5,842	6,656	7,581	6,516
COGS	5,026	5,504	6,346	5,051
Gross profit	**816**	**1,152**	**1,235**	**1,465**
Selling Expense	22	75	55	72
G&A Expense	203	260	318	326
Finance Income	39	37	41	33
Finance Expenses	171	247	275	264
Other profits	6	17	11	12
PBT	**431**	**642**	**665**	**865**
Prov. of Tax	56	104	101	120
Minority's Interest	19	32	54	216
PAT to Equity S/H	**356**	**506**	**510**	**529**
EBIT	591	816	862	1,067
EBITDA	756	816	1,143	1,412

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	14.9	13.9	13.9	-14.1
EBITDA	-6.8	8.0	40.0	23.5
EBIT	-10.1	38.1	5.5	23.8
PAT	-23.6	41.9	0.8	3.8
Total assets	26.0	29.0	16.0	1.4
Total equity	10.2	15.8	12.4	11.5
Profitability (%)				
Gross margin	14.0	17.3	16.3	22.5
EBITDA margin	12.9	12.3	15.1	21.7
EBIT margin	10.1	12.3	11.4	16.4
Net margin	6.1	7.6	6.7	8.1
ROAA	4.8	5.3	4.4	4.2
ROAE	10.9	13.6	12.1	11.2
Efficiency				
Receivable Turnover	3.1	1.9	2.9	2.5
Inventory Turnover	3.5	7.3	3.5	5.3
Payable Turnover	3.5	2.7	3.2	3.2
Liquidity				
Current	1.7	1.6	1.2	1.3
Finance Structure (%)				
Total Debt/Equity	88.6	94.4	110.3	95.8
Current Debt/Equity	30.4	39.9	54.0	47.0
Long-term Debt/Equity	58.2	54.5	56.3	48.7

VND Bn

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	568	1,476	717	1,033
Short-term investments	180	63	122	146
Accounts receivable	1,865	3,421	2,613	2,606
Inventories	1,429	750	1,828	1,373
Other current assets	119	57	63	75
Property, plant & equipment	3,759	4,407	6,522	6,786
Acquired intangible assets	230	286	286	286
Long-term investments	63	82	100	125
Other non-current assets	102	183	183	183
Total assets	**8,314**	**10,724**	**12,434**	**12,615**
Accounts payable	1,445	2,041	2,009	1,599
Short-term borrowings	1,046	1,586	2,417	2,346
Long-term borrowings	2,000	2,171	2,517	2,431
Other non-current liabilities	28	46	49	51
Bonus and Welfare fund	101	116	132	148
Technology-science, dev. fund	0	0	0	0
Total liabilities	**4,619**	**5,961**	**7,124**	**6,575**
Common stock and APIC	2,304	2,623	2,623	2,623
Treasury stock (enter as -)	0	0	0	0
Retained earnings	933	1,102	1,558	2,032
Other comprehensive income	71	89	89	89
Inv. and Dev. Fund	130	167	205	244
Total equity	**3,438**	**3,981**	**4,474**	**4,987**
Minority Interest	**257**	**782**	**836**	**1,052**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	1,745	2,526	2,399	2,490
P/E (x)	9.5	10.0	10.6	10.2
BV (dong)	17,981	20,820	23,403	26,085
P/B (x)	0.9	0.9	0.0	1.0
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	-	-	-	-

VALUATION MODEL	*Price*	*Weight*	*Average*
P/E	23,865	30%	7,160
SoP	38,532	70%	26,972
Target price (dong)		100%	34,100

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
Jun 2020	29,900	BUY	Long term
Dec 2020	29,000	BUY	Long term
Mar 2021	32,200	ACCUMULATE	Long term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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